

UTAH STATE REVOLVING FUND

Annual Report

FISCAL YEAR 2003



Main Amphitheater

Bryce Canyon National Park

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Executive Summary

The Utah State Water Quality Revolving Fund (the SRF) was established pursuant to Title VI of the Federal Clean Water Act of 1987 (the Act). The SRF provides low interest rate loans to finance the construction of publicly owned water quality preservation and protection facilities.

The Utah Department of Environmental Quality (DEQ) through the Division of Water Quality administers the SRF. The Utah Water Quality Board (the Board), an eleven-member board of officials appointed by the Governor, develops administrative rules for program implementation and authorizes loans under the SRF. The Division of Water Quality's primary SRF activities include administering loans for water quality preservation and protection facilities and managing and coordinating the fund.

The Division of Water Quality serves as staff for the Board and manages the day-to-day activities of the SRF. The Division of Water Quality receives assistance and support from the Department of Environmental Quality's Office of Support Services, the State Division of Finance, the Attorney General's Office and the State Treasurer's Office. The salaries and benefits of the DEQ employees, as well as indirect costs based on direct salary costs, are charged to the SRF. Employees charging time to the SRF are covered by the State of Utah personnel benefits plan. The SRF is also charged State indirect costs through a cost allocation plan for general state expenses.

Beginning in fiscal year 1993, Utah established a Hardship Grant Program with the approval of the Environmental Protection Agency. This program was funded in part from hardship grant assessment fees on SRF loans in lieu of interest. Hardship grant assessment fees are stripped from repayments and deposited in a special Hardship Grant Fund outside of the SRF. The monies deposited in the Hardship Grant Fund can then be used to provide grant money to communities that would otherwise be financially unable to participate in the SRF loan program. Hardship grants assessments, grants, and Hardship Grant Fund interest earnings are accounted for in the following SRF financial statements. Beginning with all loans closed after July 1, 1999, hardship grant assessments are used in accordance with EPA policies and regulations.

Utah also operates a State loan program. This program provides Utah the flexibility to fund needed water quality projects without certain restrictions that accompany the SRF program. State match funds for the SRF have been generated from the State loan program.

Mission Statement

The mission of the Department of Environmental Quality is to safeguard human health and quality of life by protecting and enhancing the environment.



Goals and Accomplishments

The SRF has provided financial assistance to communities for wastewater facilities. Efforts are beginning to expand the type of projects that will be funded in the future. Projects that preserve and protect the quality of water in Utah will be considered for financial assistance without limiting those projects to treatment of municipal waste.

Long-term Program Goals:

Goal #1 - To provide a permanent source of funding that can be used in combination with financing from the community's own resources and other funding sources to assist in financing water quality construction projects.

- The SRF is Meeting Goal #1
 - All projects that have been or will be funded from the SRF will receive loans, which require an annual repayment of principal. The fund balance has been increasing steadily since the fund was established. There is good reason to believe that the fund will continue to generate a repayment stream that will fund projects in the years to come.

Goal #2 - To evaluate environmental needs within the state in order to rate specific needs for water quality construction and allow SRF funds to be distributed in a priority manner to the most environmentally needy projects.

- All projects that received or are planned to receive loans from the SRF are high priority projects, which meet a critical need as defined by the Utah State Project Priority System.

Goal #3 - To evaluate economic needs of the communities determined to have environmental needs for water quality construction projects. The State considers offering financial assistance that provides sufficient and affordable project funding to communities and maximizes its use of the SRF fund in perpetuity.

- The SRF balances the environmental and economic need for funds and continues the source of funding for the program. A financial feasibility review is performed before a project is authorized for a SRF loan. This review evaluates the rate of interest that an entity can afford to pay and its ability to repay a loan. Unless the entity is determined capable of repaying the loan, an authorization is not made.

The Hardship Grant Program was created specifically to provide funding for projects that would not be able to proceed due to financial reasons.

- The Water Quality Board assists communities addressing needs for adequate wastewater facilities and recognizes that these facilities must be sized for future growth. When helping communities provide wastewater infrastructure for existing and future users, the Board should be satisfied that proper and adequate planning has taken place so that environmental and quality of life problems associated with sprawl are not fostered by its funded projects.

Short-term Program Goals:

Goal #1 - To assist communities for funding during facility planning and application preparation and authorize earmarked projects for funding in the Intended Use Plan.

- Each community in the IUP received facility planning and funding application preparation assistance.

Goal #2 - To assist SRF funded communities with construction completion.

- The Division of Water Quality assists communities that receive funding from the SRF with design review and guidance through construction. When construction is complete the community receives continual assistance with operation and maintenance of its facility.

Details of Accomplishments

Fund Financial Status

The State Revolving Fund receives Capitalization Grants from EPA and obligates state matching funds in an amount greater than 20% of the grant.

The fund grows with revenues from interest on loans and interest earned on invested funds. The net income from fund activities continues to increase and the fund balance is increasing steadily.

The Statement of Revenues, Expenses, and Changes in Net Assets appear in the financial report section of this report.

Assistance Activity

Fifty-four loans have been closed. All projects have begun construction and forty of the projects have completed construction. (See Table 1 for details.)

Provisions of the Operating Agreement/Conditions of the Grant

The State of Utah agreed to twenty-three conditions in the Operating Agreement. Twelve conditions have been met and need no further description. The following met conditions in the Operating Agreement are as follows:

1. Agreement to Accept Payments
2. State Laws and Procedures
3. State Accounting and Auditing Procedures
4. Recipient Accounting and Auditing Procedures
5. Use of the LOC
6. Repayments
7. Annual Audit
8. Annual Report
9. Annual Review
10. Anti-lobbying
11. Drug Free Workplace
12. Rural Area Business Enterprise Development Plan

The following eleven conditions have been met, as described in the Operating Agreement, and are described below:

1. Provide State Match - State matching funds have either been added to the fund or committed to the SRF in the amount required by the Clean Water Act. State match funds are available from the Utah Wastewater Project Assistance Program.

2. Binding Commitments Within One Year - The Utah State Revolving Fund has exceeded the program requirement for binding commitments equal to 120% of the grant amount within a year after receiving payments.
3. Expeditious and Timely Expenditure - Utah has disbursed all cash draws in a timely and expeditious manner. Construction has begun on all SRF projects within a short period after loans are closed. (See Table 1 & Table 2 for details.)
4. First Use For Enforceable Requirements - Prior to receiving the Capitalization Grant, Utah had met the requirements of Section 602(b)(5) of the Clean Water Act. This section requires that all funds as a result of the Capitalization Grant be used first to assure maintenance of progress toward compliance with enforceable deadlines, goals, and requirements of the Clean Water Act.
5. Eligible Activities of the Fund - All of the projects, which have received SRF loans, have either expended loan proceeds for eligible costs or used “banked equivalency”.
6. Compliance With Title II Requirements - In accordance with Section 602(6) of the Clean Water Act the SRF is required to meet sixteen specific Title II “equivalency” requirements for those Section 212 wastewater treatment projects constructed in whole or part before October 1, 1994, with funds “directly made available “by the Capitalization Grant. The State has met equivalency requirements up to October 1, 1994 and documented that compliance in previous annual reports. Since there was no requirement under this statute beyond the October 1, 1994 date, there has been no additional reporting for equivalency in this report.
7. MBE/WBE Requirements - The State negotiated with Region VIII fair share utilization goals for participation on activities financed by the SRF. During the state fiscal year the SRF program has met or exceeded the minimum Disadvantaged Business Enterprise (DBE) utilization program requirements. Construction projects have either implemented fair share utilization goals for DBE participation or have demonstrated that a good faith effort was made to provide opportunity for qualified DBE involvement.
8. Other Federal Authorities - The State and all recipients of SRF funds directly made available by the Capitalization Grant have complied with applicable federal authorities. Recipients of SRF assistance agreed to do this as a condition of the bond agreement between the loan recipient and the State.
9. State Environmental Review Process - During the fiscal year the State was actively involved assisting potential SRF projects with planning. Environmental impacts are being carefully considered with each plan. No loans are closed with a community until Categorical Exclusion, a Finding of No Significant Impact or an Environmental Impact Statement is issued.
10. Cash Draw Procedures - Table 2 of this report includes the amount of funds drawn from the federal Letter of Credit (LOC) and from the state match for projects and administration for the fiscal year.

11. Outlay Projections - The FY03 IUP projected draws from the federal LOC equal to \$4,250,000. During fiscal year 2003 a total \$5,073,903 was actually drawn - the actual was approximately 138% of the projected amount. The projection was lower than actual because one project (South Salt Lake City), which was not anticipated to receive a binding commitment during FY03, did proceed forward. Additionally, the draw amounts for one project (Nibley City) were greater than projected. Last, one other projected loan recipient (Goshen Town) did not need to borrow money.

Current Status and Proposed Improvements

The State Revolving Fund has grown into a permanent source of financial assistance for construction of water quality projects in the State of Utah. The fund balance has been growing steadily since the fund was first established.

There are many water quality projects every year in Utah that do not receive funding directly from the SRF. Utah leverages the funds available by encouraging self-reliance through prudent planning and by cooperative efforts with communities and other sources of available financial assistance.

Many of the larger wastewater treatment facilities in high population areas of the State have developed their own sources of financing wastewater facilities construction without the benefit of the State Revolving Fund. Medium-sized communities rely heavily on the SRF to provide additional assistance needed to make wastewater treatment affordable to their citizens. Communities with small populations use the SRF in combination with grants and loans from the Water Quality Hardship Grant Program, the Rural Development Administration, and the Utah Permanent Community Impact Board to allow their wastewater projects to be affordable.

Management

The Utah Water Quality Board governs the State Revolving Fund, sets policy, and authorizes assistance. The Construction Assistance Section of the Division of Water Quality manages the State Revolving Fund.

UTAH STATE REVOLVING FUND - ACCOMPLISHMENTS to 6/30/03																			
PROJECT IDENTIFICATION																			
Recipient Name	Project Number	Type*	%	Assmt	Hardship	Term	Need	Planned	Actual	Loan Amount	Planned	Actual	Binding Commitment	Planned	Actual	Construction Start	Planned	Actual	Construction Complete
Smithfield City	C490283	101	L	0.00%		20 yrs	IVa&b	3,630,300		3,630,300	3,630,300		May-88	Aug-88		Aug-88	Jun-88	May-88	Oct-89
South Davis SID - North	C490275	102	L	3.00%		20 yrs	I	4,498,440		4,498,000	4,498,000		Jan-89	Jan-89		Sep-88	May-88	Sep-88	Oct-90
Central Davis SID - Ph 4	C490285	103a	L	3.00%		20 yrs	I	1,250,000		1,250,000	1,250,000		Aug-88	Feb-89		Aug-88	Aug-88	Feb-89	Oct-90
Providence City	C490292	104	L	0.00%		18 yrs	IVa & b	3,500,000		3,500,000	3,500,000		Sep-89	Sep-89		Sep-89	Sep-89	Nov-90	Jan-91
Solitude ID Phase I	C490298	105	L	0.00%		20 yrs	IVb	3,200,000		2,993,000	2,993,000		Sep-89	Mar-90		Sep-89	Sep-89	Jan-93	Jan-92
Central Davis SID - Ph 5&6	C490285	103b	L	3.00%		20 yrs	I	1,150,000		1,150,000	1,150,000		Aug-88	Apr-90		Aug-88	Feb-89	Feb-90	Aug-91
Central Davis SID - North	C490283	108	L	5.00%		20 yrs	I	500,000		850,000	850,000		Mar-90	Apr-90		Feb-90	Jan-00	Mar-91	Nov-91
South Davis SID - North	C490275	107	L	5.00%		20 yrs	I	4,300,000		4,205,000	4,205,000		Feb-90	Aug-90		Aug-88	Feb-89	Sep-91	Nov-92
Solitude ID (phase II & III)	C490298	112	L	0.00%		20 yrs	IVb&IVa	1,300,000		2,376,716	1,300,000		Mar-91	May-91		Apr-90	Jan-93	May-91	May-91
Hyde Park City	C490301	106	L	0.00%		18 yrs	IV b	1,750,000		800,000	800,000		Dec-91	Dec-91		Sep-91	Jan-92	Jun-93	Mar-95
South Weber City	C490300	114	L	0.00%		20 yrs	IVb&IVa	3,006,000		3,056,000	3,056,000		Mar-92	May-92		Jun-92	Jul-92	Sep-95	Oct-95
South Davis SID - South	C490275	115	L	4.00%		20 yrs	I	3,441,000		4,475,000	4,475,000		Sep-92	Sep-92		Aug-92	Oct-92	Sep-94	Oct-95
Aurora City	C490309	119	L	0.00%		20 yrs	IVb, IVa&I	965,000		965,000	965,000		May-93	Apr-93		Jul-93	Nov-93	Dec-95	Sep-94
Timpanogos SD (sludge)	C490330	125	L	3.50%		10 yrs	II	1,300,000		1,300,000	1,300,000		Jun-93	Jun-93		Jul-93	Jun-93	Jul-94	Dec-93
St George City	C490320	123	L	3.50%		20 yrs	I	4,000,000		4,000,000	4,000,000		Dec-93	Dec-93		Feb-94	Nov-94	Sep-97	Oct-98
Santaquin City	C490306	109	L	0.00%		20 yrs	IVb, IVa&I	2,307,000		1,307,000	1,307,000		Dec-93	Feb-94		May-94	Apr-94	Jun-96	Dec-93
Orem City	C490317	128	L	0.00%	3.50%	20 yrs	I	3,500,000		3,500,000	3,500,000		Feb-94	Apr-94		Mar-94	Aug-94	Sep-95	Jun-97
North Davis Co. SID	C490328	126	L	0.00%	3.50%	20 yrs	II	4,000,000		4,000,000	4,000,000		Dec-93	Jun-94		Jan-94	Aug-94	Jan-96	Apr-96
Snyderville Basin SID	C490313	122	L	0.00%		20 yrs	IVb, I	2,320,000		2,500,000	2,500,000		Mar-94	Jun-94		Oct-95	Aug-94	Jun-96	Jul-95
Magna ID	C490325	132	L	0.00%	3.50%	20 yrs	IVb, I	2,320,000		2,320,000	2,320,000		Feb-94	Jun-94		Mar-94	Jul-94	Sep-95	Jul-95
Timpanogos SD	C490332	135	L	0.00%	4.00%	20 yrs	II	2,900,000		2,900,000	2,900,000			Jul-94		Jul-94	Oct-95	Apr-96	Apr-96
Cedar City	C490305	117	L	0.00%	2.75%	20 yrs	I,II & IVb	12,010,000		12,010,000	12,010,000		Aug-94	Aug-94		Sep-94	Apr-94	Dec-96	Jun-97
Provo City	C490323	131	L	0.00%	3.50%	7 yrs	II	1,185,000		1,185,000	1,185,000		Dec-94	Apr-95		Apr-95	Jul-95	Feb-96	Oct-96
Jordanella SAD	C490322	130	L	0.00%	3.00%	10 yrs	IVb	2,137,000		2,736,000	2,736,000		Dec-94	May-95		May-94	May-95	Jul-97	Dec-01
Midway Sanitation District	C490333	113	L	0.00%	3.00%	10 yrs	IVb	0		151,000	0		Dec-94	May-95		May-94	May-95	Jul-97	Dec-01
Mapleton City	C490294	116	L	0.00%		20 yrs	IVa & IVb	4,320,500		6,330,000	6,330,000		May-94	Jun-95		Mar-94	Jul-95	Dec-96	Dec-96
Snyderville Basin SID	C490313	134	L	5.00%		15 yrs	II	1,500,000		1,500,000	1,500,000		Jul-95	Jul-95		Aug-95	Jul-96	Aug-97	Apr-97
Grantsville City	C490289	124	L	0.00%		20 yrs	I	3,287,000		3,278,000	3,278,000		Jul-95	Aug-95		Sep-94	Sep-95	Dec-96	Oct-96
Moab City	C490324	129	L	0.00%	4.50%	10 yrs	I	1,821,000		1,725,542	1,725,542		Apr-96	Sep-96		May-96	Oct-96	May-98	Mar-98
Highland City	C490340	144	L	0.00%	4.00%	20 yrs	IVa & b	2,500,000		2,176,000	2,176,000		Apr-97	May-97		Apr-97	Apr-97	Apr-98	Apr-99
Central Davis Co. SD	C490336	140	L	0.00%	4.50%	20 yrs	I	5,100,000		5,100,000	5,100,000		Jul-97	Jul-97		Aug-97	Aug-97	Sep-98	Oct-99
St. George City	C490335	138	L	0.00%	1.00%	20 yrs	I & II	12,000,000		12,000,000	12,000,000		Sep-97	Sep-97		Oct-97	Oct-97	Sep-99	Aug-02
Mapleton City	C490294-02	143	L	0.00%		20 yrs	IVa&b	0		2,990,000	0		Dec-97	Dec-97		Jul-95	Jul-95	Dec-96	Dec-96
Tooele City	C490303	111	L	0.00%	3.50%	20 yrs	I & II	7,570,000		7,570,000	7,570,000		Sep-97	Dec-97		Oct-97	Jan-98	Sep-99	Apr-01
Washington City	C490319	213	L	0.00%	2.00%	20 yrs	Iv&IIIIa	3,356,000		3,356,000	3,356,000		May-99	May-99		Jun-99	Jun-99	Jun-01	Jul-03
Ephraim City	C490273	212	L	0.00%	3.60%	20yrs	I	2,100,000		2,100,000	2,100,000		Sep-99	Sep-99		Oct-99	Oct-99	Dec-00	Jul-00
Minersville City	C490321	209	L	0.00%	1.00%	20 yrs	I	525,000		525,000	525,000		Sep-99	Sep-99		Oct-99	Oct-99	Mar-00	Mar-00
Escalante City	C490347	214	L	0.00%	2.00%	20yrs	I	563,000		563,000	563,000		Oct-99	Oct-99		Oct-99	Oct-99	Mar-00	Mar-00
Richfield City	C490355	204	L	0.00%	4.00%	20yrs	IIb	4,000,000		4,000,000	4,000,000		Nov-99	Nov-99		Jan-99	Jan-99	Dec-00	
Price River WID	C490354	145	L	4.00%		Jun-00	I	1,000,000		1,000,000	1,000,000		May-00	May-00		Jun-00	Jun-00	Jun-01	Mar-01
Green River City	C490329	110	L	0.00%		20yrs	IIb	870,000		870,000	870,000		Jun-00	Jun-00		Jul-00	Jul-00	Jun-01	
Salina City	C490348	211	L	1.00%		20yrs	IIb & IVb	2,750,000		2,725,000	2,725,000		Mar-00	Aug-00		Sep-00	Sep-00	Feb-02	
Salina City (increase)	C490348	218	L	1.00%		20yrs	IIb & IVb	400,000		400,000	400,000		Mar-00	Aug-00		Sep-00	Sep-00	Feb-02	
Snyderville Basin (PR)	C490334	146	L	2.00%		10yrs	I	4,000,000		4,190,000	4,190,000		May-00	Dec-00		Nov-00	Feb-01	Mar-02	Aug-03
Sunnyside City	C490356	154	L	0.00%		20yrs	IIb	635,000		635,000	635,000		Apr-01	Apr-01		Apr-01	May-01	Apr-02	
West Haven SD	C490326	210	L	0.00%		20yrs	Iv	6,536,000		6,536,000	6,536,000		Sep-00	Apr-01		Nov-99	May-01	Feb-00	Nov-03
Hildale City	C490310	118	L	0.00%		20 yrs	I & IVb	1,585,000		1,585,000	1,585,000		Jul-01	Aug-01		Aug-01	Sep-01	Nov-02	
Payson City	C490333	148	L	4.00%		20yrs	I	8,479,000		7,479,000	7,479,000		May-01	Aug-01		May-01	Sep-01	Feb-02	
Bear Lake SSD	C490312	220	L	0.00%		25yrs	I	2,230,000		2,230,000	2,230,000		Jul-02	Sep-01		Jul-02	Aug-03	Dec-03	
Beaver City	C490357	217	L	0.00%	4.00%	20yrs	I & IVb	2,950,000		2,050,000	2,050,000		Oct-01	Dec-01		Oct-01	Feb-02	Apr-03	Jul-03
Oakley City	C490360	221	L	0.00%		20yrs	I	400,000		400,000	400,000		Jun-02	Mar-02		Jun-02	Sep-03	Jun-03	
South Salt Lake City	C490369	202	L	0.00%		20yrs	I	1,200,000		1,230,000	1,230,000		Jun-02	May-02		Jun-02	Non-02	Sep-03	Jun-03
Nibley City	C490339	142	L	0.00%		30yrs	IIa & Ivb	6,054,000		7,464,000	7,464,000		Jul-01	Aug-02		Aug-01	Mar-03	May-03	Aug-03
Central Davis County SD	C490386	156	L	1.90%		20yrs	IVa & b, I	2,700,000		2,700,000	2,700,000		May-03	Oct-02		Mar-03	Jun-03	Jun-05	
								TOTAL LOANS											
								166,365,558											
								4,912,172											
								171,277,730											
Administrative Assistance								N4900018810 thru CS49000103											
Total Binding Commitments																			

UTAH SRF - Cash Draw Schedule SFY 2003												
Table 2												
Recipient Name	EPA Project Number	State Project Number	Water Quality Loan Assistance Amount	Draw Amount	Binding Commitment	Construction Start	Construction Complete (CP)	SFY 2003 Jul-Sep 1 Qtr	SFY 2003 Oct-Dec 2 Qtr	SFY 2003 Jan-Mar 3 Qtr	SFY 2003 Apr-Jun 4 Qtr	TOTAL
Nibley City	C490339	142	7,464,000	3,464,000	Aug-02	Aug-01	Aug-03	1,500,000	604,000	1,360,000		3,464,000
Payson City	C490333	148	7,479,000	1,479,000	Aug-01	Sep-01			1,479,000			1,479,000
Oakley City	C490360	221	400,000	400,000	Mar-02	Aug-02	Jun-03	400,000				400,000
South Salt Lake City	C490369	202	1,230,000	1,230,000	May-02			1,230,000				1,230,000
Central Davis County SD	C490386	156	2,700,000	2,700,000	Oct-02	Jun-03					1,400,000	1,400,000
Administration								80,300	59,000	37,700	31,000	208,000
TOTAL			19,273,000	9,273,000				3,210,300	2,142,000	1,397,700	1,431,000	8,181,000
Federal LOC								2,755,300	1,794,633	490,063	30,800	5,070,796
SRF Repaymt Fund								0	200	817,165	1,400,200	2,217,565
State Match								455,000	347,167	90,472	0	892,639

UTAH STATE REVOLVING FUND

FINANCIAL STATEMENTS

FISCAL YEAR 2003

WATER QUALITY STATE REVOLVING FUND
Unaudited Statement of Net Assets
June 30, 2003
With Unaudited Comparative Totals for June 30, 2002

<u>Assets</u>	<u>2003</u>	<u>2002</u>
Current Assets:		
Cash & Cash Equivalents	\$40,016,269	\$28,710,812
Receivables:		
Amount Due from EPA	36,990	75,367
Loan Interest	314,542	372,071
Hardship Assessments	670,711	810,190
Receivable from SRF	100,290	
Current Portion of Loans Receivable (Note 4)	7,347,332	7,338,515
Total current assets	<u>48,486,134</u>	<u>37,306,955</u>
Long-term loans receivable	<u>109,455,889</u>	<u>111,534,857</u>
 Total Assets	 <u><u>\$157,942,023</u></u>	 <u><u>\$148,841,812</u></u>
 Liabilities & Net Assets		
Current liabilities:		
Payable to State	\$36,990	\$75,367
Payable to Hardship	100,290	
Net Assets:	<u>157,804,743</u>	<u>148,766,445</u>
 Total Liabilities & Net Assets	 <u><u>\$157,942,023</u></u>	 <u><u>\$148,841,812</u></u>

The accompanying notes are an integral part of the financial statements.

WATER QUALITY STATE REVOLVING FUND
Unaudited Statement of Revenues, Expenses and Changes in Net Assets
For Year Ended June 30, 2003 with Comparative Totals for June 30, 2002

	<u>2003</u>	<u>2002</u>
Revenues:		
Interest on Loans	\$ 722,574	\$ 815,540
Hardship Assessments	1,745,557	1,719,427
Grant Recovery	0	1,449,400
Interest Income - Investment	734,934	699,416
Investment Income on Hardship Fund	79,404	23,128
Total revenue	<u>3,282,469</u>	<u>4,706,911</u>
 Expenses:		
Hardship Grant Awards	-	965,884
Program Administration	172,335	522,160
Total expenses	<u>172,335</u>	<u>1,488,044</u>
 Operating income	<u>3,110,134</u>	<u>3,218,867</u>
 Non-operating Revenue (Expenses):		
EPA Capitalization Grant	5,035,525	6,857,159
Utah State Contribution	892,639	1,250,000
 Change in net assets	<u>9,038,298</u>	<u>11,326,026</u>
 Net Assets at Beginning of Period	<u>148,766,445</u>	<u>137,440,419</u>
 Net Assets at End of Period	<u>\$157,804,743</u>	<u>\$148,766,445</u>

The accompanying notes are an integral part of the financial statements.

WATER QUALITY STATE REVOLVING FUND

Combined Statement of Cash Flows For the Year Ended June 30, 2003 With Unaudited Comparative Totals for 2002

	2002	2003 (Unaudited)
Cash Flows for Operating Activities:		
Loan Payments and Pay-Offs Received	\$ 6,467,256	\$ 15,760,150
New Loans Disbursed	(20,121,000)	(13,690,000)
Loan Interest and Penalties Received	695,774	880,393
Loan Hardship Assessment and Penalties Received	1,715,133	1,784,746
Grant Recovery	1,449,400	0
Grant Awards	(965,884)	0
Program Administration	(522,160)	(172,335)
Net Cash Provided by/(Used by) Operating Activities	(11,281,480)	4,562,954
Cash Flows from Noncapital and Related Financing Activities:		
Funds Received from Investments	722,544	814,338
Funds Received from EPA	6,857,159	5,035,525
Funds Received from State of Utah	1,250,000	892,639
Net Cash Provided by Noncapital and Related Financing Activities	8,829,703	6,742,502
Increase in Cash and Cash Equivalents	(20,111,183)	11,305,456
Cash and Cash Equivalents, Beginning of Year	31,162,589	28,710,812
Cash and Cash Equivalents, End of Year	<u>\$ 28,710,812</u>	<u>\$ 40,016,268</u>
Cash Flows from Operating Activities:		
Operating Income	\$ 2,496,323	\$ 2,295,797
Adjustments to Reconcile Operating Income to Net Cash Flow Provided by Operations:		
Changes in Assets and Liabilities:		
(Increase)/Decrease in Loan Interest Receivable	(119,766)	57,529
(Increase)/Decrease in Hardship Assessment Receivable	(4,293)	139,479
(Increase)/Decrease in Receivables from EPA	(16,259)	38,377
(Decrease)/Increase in Payable to State	16,259	(38,377)
Deferred Income Recognized		
(Increase) Decrease in Loans Receivable	(13,653,744)	2,070,150
Net Cash Used by Operating Activities	\$ (11,281,480)	\$ 4,562,954

State Of Utah
Water Quality State Revolving Fund
Notes to Financial Statements
June 30, 2003

1. Organization of the Fund

The Utah Water Quality State Revolving Fund (SRF) was established pursuant to Title VI of the Federal Clean Water Act of 1987 (the Act). The Act established the Clean Water Act State Revolving Fund program to replace the Construction Grants Program. Clean Water Act State Revolving Fund grants allow the State to provide low interest rate loans with grants to finance qualified publicly owned water quality preservation and protection projects.

The SRF is capitalized by Capitalization Grants awarded by the U.S. Environmental Protection Agency (EPA). States are required to provide an additional 20 percent of the federal Capitalization Grant as matching funds in order to receive a grant. As of June 30, 2003, EPA had awarded \$122,804,294 in Capitalization Grants to the State of Utah that was required to provide \$24,560,859 in matching funds.

The Utah Department of Environmental Quality (DEQ), through the Division of Water Quality, administers the SRF. The Utah Water Quality Board (the Board), an eleven-member board of officials appointed by the Governor, develops policies and procedures for program implementation and authorizes loans under the SRF. The Division of Water Quality's primary SRF activities include administering loans for water quality preservation and protection projects and managing and coordinating the fund.

The Division of Water Quality serves as staff for the Board and the SRF. The Division receives assistance and support from the Department of Environmental Quality Office of Support Services, the State Division of Finance, the Attorney General's Office and the State Treasurer's Office. The salaries and benefits of DEQ employees, as well as indirect costs based on direct salary costs, are charged to the Fund based on time spent on SRF activities. Employees charging time to the SRF are covered by the State of Utah personnel benefits plan.

The SRF is included in Utah's Comprehensive Annual Financial Report (CAFR) as part of the Proprietary Funds (Water Loan Programs), which uses the economic resources measurement focus and accrual basis of accounting. Because the SRF is combined with other funds in the State's Water Loan Programs, the SRF's assets, liabilities, and net assets are not separately identified in the Utah's CAFR.

2. Summary of Significant Accounting Policies

Basis of Accounting

The SRF's financial statements are presented as an Enterprise Fund using the accrual method of accounting whereby revenues are recorded when earned and expenses are recorded when incurred. Utah follows the accounting pronouncements of the Governmental Accounting Standards Board (GASB), as well as statements issued by the Financial Accounting Standards Board (FASB) before November 30, 1989, unless FASB pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

All monies of the SRF are deposited with the Utah Public Treasurer's Investment Fund (PTIF) and are considered cash or cash equivalents. According to Utah law, the State Treasurer is responsible for managing cash balances and investing excess cash of the Fund, as further discussed in Note 3. Therefore, management of the SRF does not have control over investment of excess cash, and the statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments. Deposits with the Utah State Treasurer are accounted for on the balance sheet as cash or cash equivalents.

Loans Receivable

Utah operates the SRF as a direct loan program, whereby many of loans made to communities are 83.3 percent funded by the federal Capitalization Grant and 16.7 percent from State matching funds. Additional loans have been made from loan principals and interests that have been repaid to the SRF and investment earnings of the Fund. A project is funded through the purchase of an incremental disbursement bond. The proceeds are then deposited to an escrow account. The community draws funds from the escrow account subsequent to an initial disbursement at loan closing as it expends funds for the project.

Interest rates range from zero to 3.0 percent and are calculated from the date that funds are advanced, and interest is accrued during the construction period. After the final loan disbursement has been made, the loan and agreement amounts are adjusted for the actual amounts disbursed. No provisions for uncollectible accounts have been made as all loans are current, and management believes that all loans will be repaid according to the authorized loan terms.

Hardship Grant Assessments

Beginning in 1993 EPA approved a Fund policy to charge hardship grant assessments in lieu of interest on certain loans. Hardship grant assessments are paid in the same manner as interest and are deposited in a special hardship grant account. Proceeds of hardship grant assessments are used to provide grants to communities for the planning, design and construction of wastewater treatment facilities where otherwise these facilities would not be economically feasible.

In 1998, EPA's Office of Inspector General questioned whether this practice was in accordance with the Clean Water Act and SRF regulations. EPA subsequently granted a deviation from the regulation in 1999 that: (1) allowed Utah to keep all hardship grant assessments on loans made from Federal grants awarded prior to 2000; and (2) prohibited hardship grant assessments on future loans funded directly by EPA Capitalization Grants unless they were used for one or both of the following purposes:

(a) added to the funds committed to the Grant Agreement by the Federal agency and the granteeand used for the purposes and under the conditions of the Grant Agreement;
or

(b) used to meet the cost sharing or matching requirement of the Grant Agreement.

Utah may continue to assess hardship fees on certain loans funded by net earnings of the SRF and principal repayments on loans.

The accompanying financial statements present the combined financial position and result of operations of both the hardship grant assessment fund and the SRF. Details of each fund are reported separately as Supplemental Information.

State match funds are provided to the SRF from revenues of the Utah Wastewater Loan Program, which was created by state law Utah Code Annotated 1953, Section 73-10(c).

Utah pays for all administrative expenses with federal funds. The required match for the Capitalization Grant is met by overmatching the required match for loans by an amount at least equal to that necessary to cover its administrative match requirement.

Reclassifications

Certain amounts in the 2002 unaudited financial statements have been reclassified to conform to the presentation in the 2003 financial statements.

3. Cash and Cash Equivalents

All monies of the SRF are deposited with the Utah State Treasurer and are considered cash. The Treasurer is responsible for maintaining the cash balances in accordance with the Utah Money Management Act. Utah's Money Management Act requires the Treasurer to invest these funds in a manner that: (1) ensures maximum safety of principle; (2) provides adequate liquidity to meet all operating requirements; and (3) achieves the highest possible return on investment consistent with the primary objectives of security and safety. Details of the investments of the PTIF can be obtained from the State Treasurer.

The SRF earned \$814,338 from investments in the PTIF during fiscal year 2003. Investments in

local government investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form, and are as follows:

	<u>Fair Value</u>	<u>Cost</u>
Not subject to categorization:		
Local government investment pool	\$40,016,269	\$39,959,212

4. Loans Receivable

Loans are made from the SRF to qualified entities for projects that meet the eligibility requirements of the Act. Capitalization Grants, state match and revolving funds finance loans. Effective interest rates on loans vary between 0.0 and 3.0 percent, and are generally repaid over 20 years starting one year after the project has been complete. Loans receivable as of June 30, 2003 equal \$116,805,996.

Loans mature at various intervals. The scheduled principal repayments on loans maturing in subsequent years are as follows:

Year ending June 30:	2004	\$ 7,347,332
	2005	7,950,741
	2006	8,140,407
	2007	8,341,339
	2008	8,429,759
	Thereafter	<u>\$ 76,596,418</u>
	Total	<u><u>\$ 116,805,996</u></u>

5. Capitalization of the Fund

The SRF is capitalized by EPA grants authorized by Title VI of the Clean Water Act and matching funds from Utah. As of June 30, 2003, EPA had awarded Capitalization Grants of \$122,804,294 to Utah, which \$115,865,701 has been incurred for loans and administrative expenses. Utah had provided matching funds of \$23,155,034. The following summarizes the Capitalization Grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans:

<u>Capitalization Grants</u>	<u>Total</u>
Grants awarded, June 30, 2002	\$115,854,994
Current year Capitalization Grant	<u>6,949,300</u>
Contributed capital	<u><u>\$122,804,294</u></u>

EPA Contributions (Letter of Credit draws)
As of 6/30/2003

June 30, 2002 Balance	Less: LOC draws payable as of 6/30/02	Plus: LOC draws made FY 2003	Plus: LOC draws payable as of 6/30/03	Total Letter of Credit draws as of 6/30/03
\$110,867,165	\$75,367	\$5,073,903	\$36,990	\$115,902,691

Utah State Match Contributions
As of 6/30/2003

June 30, 2002 balance	Plus: Match draws During FY 2003	Total draws as of 6/30/03
\$22,262,396	\$892,639	\$23,155,035

6. Contingencies

The SRF is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing SRF business, or acts of God.

The SRF is included in Utah's Risk Management Fund, which provides insurance in case of loss or claims against the Fund.

Authorized Projects

As of June 30, 2003, the Board had approved funding authorizations for six communities totaling \$33,198,000 for loans that have not closed:

	<u>Authorized Loan Amount</u>
Fairview City	\$ 1,600,000
Hyrum City	4,220,000
Moroni City	2,635,000
North Davis County	20,000,000
Parowan City	2,873,000
Stockton Town	<u>1,870,000</u>
Total Outstanding Commitments	<u>\$33,198,000</u>

WATER QUALITY STATE REVOLVING FUND
Unaudited Combining Statement of Net Assets
June 30, 2003

<u>Assets</u>	<u>Loan Fund</u>	<u>Hardship Assessment</u>	<u>Total Enterprise</u>
Cash & Cash Equivalents	\$35,271,850	\$4,744,419	\$40,016,269
Receivables:			
Amount Due from EPA	36,990		36,990
Loan Interest	314,542		314,542
Hardship Assessments		670,711	670,711
Receivable from SRF		100,290	100,290
Current Portion of Loans Receivable (Note 4)	7,347,332		7,347,332
Total current assets	42,970,714	5,515,420	48,486,134
Long-term loans receivable	109,455,889		109,455,889
Total Assets	\$152,426,603	\$5,515,420	\$157,942,023
<u>Liabilities & Net Assets</u>			
Liabilities:			
Payable to State	\$36,990		\$36,990
Payable to Hardship	100,290		100,290
Net Assets:	152,289,323	5,515,420	157,804,743
Total Liabilities & Net Assets	\$152,426,603	\$5,515,420	\$157,942,023

WATER QUALITY STATE REVOLVING FUND
Unaudited Combining Statement of Revenues, Expenses and Changes in Net Assets
For Year Ended June 30, 2003

	<u>Loan Fund</u>	<u>Hardship Assessment</u>	<u>Total Enterprise</u>
Revenues:			
Interest on Loans	\$722,574	\$0	\$722,574
Hardship Assessments		1,745,557	1,745,557
Grant Recoveries		0	0
Total Revenue	722,574	1,745,557	2,468,132
Expenses:			
Hardship Grant Awards		0	0
Program Administration	172,335		172,335
Total Expenses	172,335	0	172,335
Operating Income	550,239	1,745,557	2,295,797
Non-Operating Income:			
Interest Earnings from Investments	734,934	79,404	814,338
EPA Capitalization Grant	5,035,525		5,035,525
Utah State Contribution	892,639		892,639
Change in net assets	7,213,337	1,824,961	9,038,299
Net Assets at Beginning of Period	145,075,986	3,690,459	148,766,445
Net Assets at End of Period	\$152,289,323	\$5,515,420	\$157,804,743

Appendix A

UTAH DIVISION OF WATER QUALITY

Personnel

For the State Fiscal Year Ending June 30, 2003



**Sid Curnow, Contract/Grant Analyst
SRF Administration**

**Ed Macauley, P.E.
Environmental Engineer**



**Paul Krauth, P.E.
Environmental Engineer**

UTAH DIVISION OF WATER QUALITY

Personnel

For the State Fiscal Year Ending June 30, 2003



**Judy Etherington, Program Coordinator
Wastewater Operator Certification**



**Gennaro Dicataldo
Environmental Engineer**

UTAH WATER QUALITY BOARD

Retirement Presentation



J.D. McDonald
Environmental Engineer
(Retired on April 1, 2003)

William R. Williams, Chair

The following is a list of projects J.D. had oversight on while with the Utah Division of Water Quality:

***Construction Of Wastewater
System Improvements***

Central Davis SD
Fairview City
Hildale City
Payson City
Salina City
St. George
Washington City
West Haven

***Wastewater Reuse Feasibility Study
For the District***

Central Weber

***Preparation Of A Wastewater Facility
Plan For the City***

Eureka City Corp
Hooper City